

Message Text

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ACTION EA-09

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E.O. 11652: N/A

TAGS: EAID, ENRG, JA, IZ

SUBJECT: JAPANESE AID TO IRAQ: KHOR AL ZUBAIR FERTILIZER PLANT;
PETROCHEMICAL PROJECT

REF: A. TOKYO 11492 (NOTAL) B. TOKYO 11284 (AUG. 30, '74)

SUMMARY: JAPAN'S MITSUBISHI GROUP SIGNED CONTRACT WITH
IRAQ SEPT. 27 IN BAGHDAD FOR CONSTRUCTION OF FERTILIZER
PLANT AT COST OF 170 BILLION YEN (561 MILLION DOLLARS).
JAPANESE GOVERNMENT HAS EXCHANGED NECESSARY DOCUMENTS WITH
IRAQ COMMITTING TOTAL OF 87.4 BILLION YEN (288 MILLION
DOLLARS) TO SUPPORT PROJECT. ADDITIONALLY, JAPANESE PRESS
REPORTS INDICATE IRAQ PREPARED TO FAVORABLY CONSIDER
JAPANESE BID ON PETROCHEMICAL PLANT, AND JAPANESE CONSORTIUM
UNDER TOYO ENGINEERING HAS SUBMITTED PROJECT COST ESTIMATE
OF 700 BILLION YEN (2.3 BILLION DOLLARS) TO GOI.
END SUMMARY.

1. OFFICIALS OF IRAQI GOVERNMENT AND JAPAN'S
MITSUBISHI GROUP SIGNED CONTRACT IN BAGHDAD SEPTEMBER
27 FOR KHOR AL ZUBAIR FERTILIZER PLANT CONSTRUCTION
PROJECT VALUED AT 170 BILLION YEN (APPROX. 561 MILLION
DOLLARS AT 303 YEN/DOLLAR). ACCORDING MITSUBISHI,
PLANT IS TO BE COMPLETED BY END OF 1979 AND WILL USE
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IRAQI NATURAL GAS IN PRODUCING ONE MILLION TONS

ANNUALLY OF UREA AND AMMONIUM CHEMICAL FERTILIZER.

2. OFFICIALS OF GOJ AND GOI ALSO EXCHANGED DIPLOMATIC NOTES SAME DAY IN BAGHDAD PROVIDING FOR JAPANESE LOAN OF 21.842 BILLION YEN (APPROX. 72 MILLION DOLLARS) TO SUPPORT PROJECT. LOAN WILL BE EXTENDED BY JAPAN'S EXPORT-IMPORT BANK TO GOVERNMENT OF IRAQ. TERMS WILL BE 4 PERCENT INTEREST WITH REPAYMENT PERIOD OF 25 YEARS INCLUDING 7 YEARS' GRACE. LOAN IS TIED TO PROCUREMENT OF JAPANESE GOODS AND SERVICES. ADDITIONALLY, GOJ AMBASSADOR DELIVERED SIDE LETTER TO SEPT. 27 NOTE EXCHANGE PROVIDING FOR MIXED JAPANESE EXIM-CITY BANK QTE COMMERCIAL CREDIT UNQTE OF 65.525 BILLION YEN (APPROX. 216 MILLION DOLLARS). TERMS OF THIS LOAN WILL BE 6.3 PERCENT INTEREST WITH REPAYMENT PERIOD OF 10 YEARS INCLUDING 2 YEARS' GRACE. (ON SEPTEMBER 30 IN TOKYO, OFFICIALS OF EXIM BANK AND GOI EXECUTED LOAN AGREEMENT REGARDING 21.842 BILLION YEN LOAN MENTIONED ABOVE. LOAN AGREEMENT IS NEXT STEP AFTER NOTE EXCHANGE IN GOJ DISBURSEMENT PROCESS.)

3. COMMENT. BACKGROUND OF PROJECT IS REPORTED REFTELS. AS ADDRESSEES AWARE, JAPAN-IRAQ ECONOMIC AND TECHNICAL COOPERATION AGREEMENT AND RELATED NOTE EXCHANGE INVOLVED QUID PRO QUO OF JAPANESE FINANCIAL SUPPORT TO AS MANY AS SIX IRAQI PROJECTS IN RETURN FOR ASSURED SALES TO JAPAN OF IRAQI PETROLEUM AND LPG OVER TEN YEAR PERIOD. HOWEVER, JAPANESE FINANCIAL SUPPORT IS CONTINGENT ON JAPANESE FIRMS' GETTING CONTRACTS FOR IMPLEMENTATION OF IRAQI PROJECTS, AND A) LARGE SCALE AND RISK OF MID EAST PROJECTS TOGETHER WITH B) DECREASING JAPANESE COMPETITIVENESS OVERSEAS HAVE COMBINED TO DISCOURAGE JAPANESE FIRMS FROM BIDDING AND HAS LESSENNED THEIR CHANCES OF WINNING CONTRACTS. JAPANESE FIRMS BID AND LOST ON IRAQI CEMENT PROJECT AND DECLINED TO BID ON IRAQI ALUMINUM PROJECT (PROBABLY BECAUSE OF THEIR PREOCCUPATION WITH OTHER HUGE ALUMINUM PROJECTS IN INDONESIA AND BRAZIL). RESULTANT LACK OF PROGRESS ON ECONOMIC ASSISTANCE PORTION OF ECONOMIC AND TECHNICAL COOPERATION LIMITED OFFICIAL USE

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AGREEMENT HAD BEEN SOURCE OF CONCERN TO GOJ AND REPORTEDLY IRRITATING TO GOI. SIGNING OF CONTRACT, NOTE EXCHANGE, AND LOAN AGREEMENT RE FERTILIZER PROJECT WILL NO DOUBT BE GRATIFYING TO BOTH. END COMMENT.

4. NIHON KEIZAI SHINBUN IN FRONT PAGE ARTICLE OCTOBER 2 REPORTS THAT JAPANESE CONSORTIA UNDER TOYO ENGINEERING HAS VERY RECENTLY SUBMITTED TO GOI AN ESTIMATE FOR

IRAQ'S PETROCHEMICAL COMPLEX PROJECT OF 700 BILLION
YEN (APPROX. 2.3 BILLION DOLLARS). REPORTEDLY, CON-
SORTIUM SUBMITTED ESTIMATE FOLLOWING VISIT TO JAPAN
OF GOI OFFICIAL WHO ASSURED JAPANESE THAT SHOULD BID
BE SUBMITTED IT WOULD RECEIVE FAVORABLE CONSIDERATION
BASED ON OTHER THAN PURELY COST CONSIDERATIONS. RE-
PORTEDLY, ADDITIONAL FACTOR IN CONSORTIUM'S WILLINGNESS
TO PURSUE PROJECT WAS IRAQI INDICATION THAT BID AND
CONTRACT INCLUDING COST ESCALATION CLAUSE WOULD BE
ACCEPTABLE TO GOI. COMMENT: WE HAVE NOT BEEN ABLE
YET TO CONFIRM OR REFUTE ABOVE PRESS ACCOUNT; WE
RECALL, HOWEVER, THAT EARLIER PRESS REPORTS ON FERTILIZER
PROJECT STATED THAT GOI, BECAUSE OF ITS FINANCIAL
PROBLEMS, WAS WILLING TO ACCEPT JAPANESE BID HIGHER
THAN COMPETITORS' IN ORDER TO BENEFIT FROM
CONCESSIONAL JAPANESE FINANCING. SUCH CONSIDERATIONS
MAY HAVE INFLUENCED GOI WITH RESPECT TO PETROCHEMICAL
COMPLEX AS WELL. END COMMENT.
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